Indeed, small and rural LECs -- whose networks often will be significantly less "advanced" than those of large incumbents such as the RBOCs -- may well face additional costs, yet the Commission has never given any indication that these carriers will not be entitled to recover all of their specific costs directly related to providing number portability.[20] Indeed, any such ruling would be inherently punitive, would in no way be related to any of the principles promulgated in either the Commission's Cost Recovery Order or the Bureau's Cost Classification Order, and would violate the principle that cost recovery must be competitively neutral. Accordingly, U S WEST is entitled to recover all of its costs directly related to providing number portability, regardless of whether its network is perceived as more or less "advanced" than other carriers.

Issue No. 9

The Commission questions whether U S WEST's number portability tariff includes costs U S WEST incurred to adapt other OSS systems to number portability, in addition to the incremental portion of OSS upgrades that are directly related to number portability. The Commission also questions whether the OSS costs U S WEST claims in its number portability tariff are reasonable. U S WEST is directed to file an itemized list of OSS costs, arranged by functional area (i.e., provisioning, maintenance, repair, billing, etc.). For each OSS modification or augmentation, U S WEST is directed to provide (1) the total cost, (2) the cost assigned to number portability, (3) the costs allocations among number portability services, (4) an explanation of how each OSS modification relates to performing queries, (5) an explanation of how each OSS modification relates to porting numbers between carriers, (6) an explanation of how each OSS modification relates to any other number portability function, (7) the basis for cost allocations between number portability and non-number portability services, and (8) the basis for costs allocations among number portability services. For functions other than provision of number portability, U S WEST should explain with specificity why it believes a particular OSS modification or upgrade qualifies as eligible under the LNP Cost Classification Order. (¶ 20- 21)

[20] Id. ¶ 73.

Response

The Table in Attachment 5 is an itemized list of OSS costs organized by functional area. For each functional area, U S WEST lists first the applications whose costs were recoverable under the Bureau's Cost Classification Order and then the applications whose costs apparently are not recoverable under the Bureau's Order but are in fact directly related to LNP and, in U S WEST's view, recoverable under the Commission's Cost Recovery Order. Consistent with the Bureau's Cost Classification Order, the latter category was *not* included in the costs used to support U S WEST's rate elements; accordingly, these costs are listed separately in the column labeled "Excluded Cost."

The eight items of information requested in the Designation Order can be found in the Table:

(1) The total cost of each OSS modification is equal to the cost in the column entitled "Included Cost" (or, in the case of modifications not recoverable under the Bureau's Cost Classification Order, the column labeled "Excluded Costs").

(2) The cost assigned to number portability is also equal to the cost in the "Included Cost" column because each of these modifications was made exclusively for the provision of LNP. In particular, these functions meet one or more of the following criteria:

(a) The system is required to set up transmission of data or actually transmits data to the NPAC;

(b) The system is required to provision the service to the network element; or
(c) Call processing for a ported number will not work without this system.

U S WEST believes that the systems listed for recovery are essential to providing correct network routing information to the NPAC and for the provision of LNP to the network elements. Applying these criteria resulted in the exclusion of all costs for repair, billing (except query and surcharge billing), and reports systems -- U S WEST does not seek recovery of the costs of modifying any of these systems, and their costs accordingly are listed in the "Excluded Costs" column.

(1) The only OSS modification whose costs were assigned to the performance of queries was the "CRIS Query Billing" system, which is necessary to bill other carriers. All remaining costs were assigned to porting numbers.

(2) The column entitled "Relationship to performing queries" explains how each OSS modification is related to performing queries.

(3) The column entitled "Relationship to porting numbers between carriers" explains how each OSS modification is related to porting numbers.

(4) The column entitled "Relationship to other number portability functions" explains how each OSS modification is related to other number portability functions, if at all.

(5) Because the OSS modifications with "included costs" (i.e., those with costs that U S WEST assigned to LNP in its tariff) are used

exclusively for the provision of LNP, U S WEST allocated their costs entirely to LNP services. The costs generally break down into three categories: personnel time for software development, license fees, and maintenance. U S WEST tracked personnel time for software development from the beginning of its LNP effort by establishing a special code for the reporting of time dedicated to OSS modifications for the provision of LNP. The software development costs accordingly represent U S WEST's actual and projected costs to date for software development for the provision of LNP. The license fees (the line item labeled "Bellcore Systems License Fees" in the provisioning category) are paid by U S WEST for Bellcore (Telcordia) modifications made for the provisioning of LNP. These license agreements related exclusively to LNP-related modifications. Finally, as discussed above in response to issue 5, consistent with standard U S WEST and industry practices, the identified costs also include maintenance costs equal to 15% of the costs incurred for the development and modification of the OSS applications.

(6) The costs of each OSS modification were allocated between number portability services on the basis of what function the particular OSS modification performs. As noted above, the only OSS modification allocated to query services was the "CRIS Query Billing" system, which is used to capture queries to the LNP SCP

in order to bill the appropriate carrier. Because this system modification is used only in connection with performing queries for other carriers, its cost was assigned entirely to the query service. All the remaining OSS modifications whose costs were included were assigned to the end-user charge.

U S WEST is not seeking recovery of the costs of any OSS modification or upgrade that is used for a function other than the provision of number portability.

Issue No. 10

U S WEST is directed to explain for each OSS modification the manner in which it alters the nature of the task or function previously performed and why the change is necessary "for the provision of portability". (¶ 22)

Response

The rightmost column in Attachment 5 describes each OSS modification and why that modification is necessary for the provision of number portability.

Issue No. 11

U S WEST is directed to identify OSS costs related to performing 10 digit translations and demonstrate that they will not benefit CLASS services, area code overlays, or other services. In the alternative, U S WEST should show how these costs were allocated among services that benefit from the changes. (¶ 22)

Response

U S WEST has not included any OSS cost associated with performing 10-digit translations. U S WEST has included the OSS costs of creating a new "10 digit unconditional trigger" in Transmittal Nos. 965 and 975. See the response to Issue No. 6 above for a further explanation of the role of 10 digit unconditional triggers in the provision of LNP.

Issue No. 12

The Commission questions whether the inclusion of such costs as marketing, advertising, franchise fees and licenses, depreciation, earnings, vehicles, and gross receipts taxes and factors representing an average cost of building and use of space are, in fact, general overheads. U S WEST is directed to explain: how it calculated the "miscellaneous incremental expenses" it included in its network costs; how overhead costs factors related to such costs as building and space utilization were used in estimating "miscellaneous incremental overheads," "service delivery costs," "administrative", and "business fees" costs. U S WEST is directed to file actual expenditures made or planned for these functions. (¶¶ 26-27)

Response

End-User Surcharge

U S WEST did not apply overhead cost factors to the actual and planned costs included in the calculation of the end-user charge. All overhead costs were based on actual and planned expenditures for each specific workgroup. These include Service Delivery Costs, as detailed in Workpaper 6 filed in Transmittal No. 965, and Network Miscellaneous Incremental Overhead Costs, as detailed in Revised Workpaper 5 in Transmittal No. 975.

As set forth in the response to Issue 5 above, the Service Delivery costs are employee-related expenses required to provide local number portability functions to end users and carriers alike. The functions performed by these personnel include the receipt and implementation of orders from both carriers and end users to change a number from one local service provider to another. As summarized in Transmittal No. 965, Workpaper 6, these costs include receipt, indexing and screening of local service requests, order typing, error correction, logging, tracking, firm order confirmation, monitoring of order activities, proactive coordination with the co-carrier during the activation process and quality control. Also included are costs for development and delivery of training to internal workgroups, development and implementation of ordering and provisioning processes, and development of methods and procedures.

These costs clearly meet the Commission's criteria for inclusion in the end-user surcharge. U S WEST has only included the incremental ordering cost related to processing a ported number. Second, this process is essential to porting. If the order process fails a number cannot be ported. U S WEST is working closely with competitive local exchange carriers to ensure they understand and can utilize all available processing methods. It is essential that U S WEST work with the competitive local exchange carriers to ensure all customers are connected to the competitive local exchange carrier before U S WEST disconnects the customer in our records. U S WEST believes this is critical to ensuring that the competitive local exchange carrier is not disadvantaged.

The Service Delivery costs for 1998 are actual costs incurred since LNP began to be implemented in July, 1998. U S WEST costs for 1999 through January, 2004, are based on forecasted order volumes. Again, U S WEST's filing includes only those Service Delivery costs that are incremental to the business and meet the two-part test of the Cost Classification Order. Costs related to training/educating the co-carriers are not included. Also not included are costs incurred to enable location portability – that is, the ability of an end user to move from one U S WEST switch to another within the same rate center. Although these location portability costs would not have been incurred "but for" LNP, they are not costs incurred in the provision of "service provider number portability."

The network costs deemed "Miscellaneous Incremental Overheads" are employee-related costs that were, and will be, incurred in direct support of provisioning and maintenance of the LRN functions and hardware that were added in the network. These costs include work performed for complex translations, planning, provisioning for DID, central office cutover, and central office capital maintenance.

Query Charges

As discussed in Issue 13, inclusion of these costs are fully in compliance with the Commission's new service tariff rules. However, at the Commission Staff's request, U S WEST is filing incremental costs associated with query charges. The new calculations detail costs and projections for future years based on actual expenditures, with only a small number of factored overhead costs.

No Service Delivery costs are included in the query costs. Network costs associated with queries, as described above in connection with the end-user charge and as detailed in Workpaper 5 under the category of Miscellaneous Incremental Overheads, are included in the overheads.

The query charge also included a loading for business fees. These fees are estimates of the expenses associated with gross receipts and other taxes that vary with the volume of revenue and accordingly are an incremental cost of LNP. Business fees are applied using a factor equal to the sum of gross receipts and other taxes divided by the sum of all the operating and investment expenses directly attributable to LNP. Attachment X details the overheads attributable to LNP queries.

Issue No. 13

U S WEST is directed to explain the use of the 1.89 factor to adjust its estimated "forward looking incremental" query cost and why the use of this factor does not result in recovery of embedded costs rather than incremental costs of number portability. (¶ 28)

Response

The Commission has raised several questions about the correct costing principles to be used when developing the LNP query services charges. As an initial matter, the Commission must recognize an important distinction between the LNP end-user surcharge and query services charges. The LNP surcharge is a temporary mechanism to recover incremental costs in a competitively neutral manner for the implementation of LNP. Query services charges, on the other hand, are not a temporary recovery mechanism but are charges for a new service offering under the Commission's price cap rules.

This distinction is important. Although the costs allocated to the end-user surcharge are the only costs that can be recovered in the surcharge, the costs allocated to the query services charges represent only a portion of the costs that need to be considered in developing the query rates. Under the Commission's price cap rules, specifically the new services test, LECs must use cost-based support for new services, including overheads. The prices that U S WEST filed for query services followed the same costing methodology accepted by the Commission for all of U S WEST's new services filings since the new services test was adopted in 1991. Under the methodology, U S WEST analyzes a new service using a forward-looking cost basis to identify investment and direct expense associated with providing the new service. The shared investment and cost is then applied on a forward-looking basis to arrive at the total forward-looking cost of the new service. Because most new services use investment that was installed in earlier years at a cost higher than forward looking costs, an overhead that accounts for this difference is applied to reflect the true cost of the service. The result is the price ceiling allowed for a new service. LNP query services utilize existing capacity on U S WEST's SS7 network that was installed in the late 1980s at higher costs than those applicable today. U S WEST's 1.89 overhead merely reflects this real cost of the existing infrastructure being used. U S WEST annually studies its interstate costs relative to its forward-looking costs to derive this overhead rate.

Although the Commission has expressed some concern that use of an overhead factor might lead to double recovery,[21] U S WEST's treatment of the query services charge does not do so. Price caps create incentives for incumbent LECs to reduce cost and introduce new services. In particular, price caps force the incumbent LECs to reduce prices on existing services each year for anticipated productivity improvements that exceed productivity achieved by the general economy (currently a factor of 6.5). In order to maintain profitability, the price cap companies must either reduce cost or introduce new services that share embedded infrastructure. For this reason the Commission's rules allow all services to recover the cost of shared infrastructure (i.e. overhead). As a type of new service, query services are entitled to precisely the same treatment.

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[21] Cost Classification Order ¶. 35; Cost Recovery Order ¶ 74.

Accordingly, U S WEST's costing methodology comports with the Commission's price cap rules for new services. Since the new LNP query services fall under the price cap rules (as opposed to the LNP surcharge, which is being treated outside of the price cap mechanisms) U S WEST's treatment of the query costs, including its use of the 1.89 overhead factor, is an appropriate method to develop the cost-based price for query services.

Issue No. 14

U S WEST is directed to provide complete explanations of its basis for allocating number portability costs among services and to explain fully why its method is reasonable. In addition, U S WEST must explain how the costs shown on the worksheet correlate with costs shown elsewhere in its cost support. U S WEST must include sufficient data and calculations to show the assumptions used to allocate the costs of shared facilities, such as costs of the shared regional databases and links. (¶ 33)

Response

In order to allocate number portability costs among services, U S WEST initially allocated any investment (or portion of investment) dedicated solely to a particular LNP service to the cost for that service. For example, because AMA recording software is used exclusively for billing default queries, the entire cost of that software was allocated to default query services. Similarly, for the Service Delivery line item in Workpaper 12, U S WEST determined that the $75,024,610 in costs were entirely attributable to the End-User Charge because they are incurred specifically to enable the porting of telephone numbers from one local service provider to another.[22] None of these costs is directly related to Query Services.

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[22] The remainder of the "total investment" of $80,840,243 is comprised of Type 3 costs that are incurred to enable location portability, or the ability of an end user to

Investments (including those for shared facilities such as regional databases) that were attributable to both query services and the end-user surcharge were allocated based on query demand as described in the next paragraph. Allocating costs according to query demand is the fairest way to separate the cost of investments because queries sold to other carriers are essentially identical in terms of the capacity and facilities used to queries performed for U S WEST end users,. The only added expenses associated with queries for other carriers are for billing, and none of those billing expenses were allocated to the End-User Surcharge. Accordingly, the query demand method effectively allocates the entire investment (including spare capacity) to all services in the same proportion as the usage for those services.

Using actual 1998 traffic studies, U S WEST developed demand forecasts for the percentage of queries that would be made for Default LNP Tandem Query Service, Default LNP End Office Query Service, LNP Database Query Service, and U S WEST Queries. This forecast resulted in an allocation based on capacity of 2% for Default Tandem Query Service, 1% for End Office Query Service, 4% for Database Query Service (i.e., a total of 7% for all query services) and 93% for U S WEST queries (attributable to the end-user surcharge). U S WEST then determined which services used each investment and allocated the LNP cost of that element between those services based on the demand percentages. Thus, for those investment elements that are used by all services (e.g., links between STPs), 93% of

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move from one U S WEST switch to another within the same rate center. See Transmittal No. 965, D&J Section 3.2.9.1.

the costs were attributed to the End-User Charge and 7% to the Query Service Charge. For other elements, such as the right-to-use fees for LNP features on switches, the costs for features used exclusively for U S WEST queries were assigned directly to the End-User Charge, and the costs of the remaining features (which were used by all services) were allocated according to the same 93% and 7% breakdown. In the case of the right-to-use fees for LNP features, the result was that 95.16% of the total costs for this investment (the amount directly assigned plus 93% of the shared costs) were allocated to the End-User Charge and the remaining 4.84% (equal to 7% of the shared costs) were allocated to the Query Service Charge.

The results of this allocation are set forth in Workpaper 12 of Transmittal No. 975. Attachment 6 sets forth how the data in Workpaper 12 correlates with the data in the cost support. In particular, the costs listed in each cell of Workpaper 12 are equal to the sum of the costs for the items with the reference numbers listed in the corresponding cell of Attachment 6.

Issue No. 15

U S WEST is directed to explain how prior years costs related to LNP implementation were treated with respect to jurisdictional separations. U S WEST should demonstrate that LNP costs booked in past periods and included in the development of federal number portability charges have not already been recovered in the state jurisdiction. Alternatively, U S WEST should explain how state ratepayers will be made whole if the FCC allows federal recovery of costs previously assigned to the intrastate jurisdiction and included in the state ratemaking process. U S WEST also is directed to explain how costs related to LNP implementation will be treated prospectively with respect to jurisdictional separations. U S WEST should demonstrate that LNP costs included in the development of federal LNP charges will not be recovered prospectively in the state jurisdiction. (¶ 36)

Response

U S WEST has not removed LNP costs for prior years from the jurisdictional separations process. This has had little or no impact on intrastate rates because the existing rates in most U S WEST states were established before U S WEST incurred any long term LNP costs. As described below, only a minimal amount of OSS expenses were incurred in 1996. All other LNP costs were incurred after 1996. The absence of LNP costs in state rates is highlighted by Attachment 7, which summarizes recent rate case activity in the 14 states served by U S WEST.

The issue of LNP cost recovery has arisen recently in several U S WEST state proceedings. In a pending rate case in Arizona, U S WEST directly addressed the issue in its testimony. U S WEST expects to make an adjustment to the Arizona test period as soon as the final level of recovery allowed by the Commission is decided. The Utah Commission disallowed all interconnection costs including estimated LNP costs from the 1996 test year. In Washington, U S WEST filed a rate case that used a 1996 test year. Consequently, U S WEST's Washington rates now reflect a small amount (i.e., less than an estimated $70,000 out of total expenses of $1 billion or .007%) of OSS license costs that were recorded in the 1996 test year and are included in U S WEST's interstate filing.

If the Commission allows federal recovery of costs previously assigned to the intrastate jurisdiction that are included in the state ratemaking process, U S WEST will adjust future intrastate test periods to remove any such LNP costs. This will prevent costs included in the development of federal LNP charges from being recovered prospectively in state jurisdictions.

The Commission has ordered LNP costs removed from the Part 36 Jurisdictional Separations process. U S WEST will use a direct approach to accomplish this task. LNP end-user charges and LNP interexchange carrier charges will be booked to Account 5240 (Miscellaneous Revenues). Sub-accounts will be established to distinguish the end-user revenues from the carrier revenues and the sub-accounts will be separated. An analysis of the LNP expenditures indicates that most of the costs are switching related. Therefore jurisdictional separations of these revenues will be based on relative Dial Equipment Minutes ("DEM"). This method establishes the necessary symmetry between costs and revenues in both jurisdictions which is a lynchpin of the separations process.

For example, if $50 million of LNP costs are incurred with a 20% DEM factor, the separations process will assign $10 million of the costs to interstate jurisdiction and the balance, or $40 million, to the intrastate jurisdiction. Next, assume the Commission allows $50 million in revenue to cover the costs. The revenues are assigned $10 million to interstate and $40 million to intrastate. This accounting treatment will ensure that all LNP costs will be zeroed out for state regulatory purposes.[23]

[23] U S WEST's use of this accounting convention does not alter its position that all costs attributable to the Federal LNP mandate must be recovered within the Federal jurisdiction. See U S WEST AFR at 15-17.

U S WEST of course shares the Commission's concern that LNP costs should not be double-recovered. This method is an equitable solution that does not add complexity to the separations process. Ease of tracking is another benefit to both the company and regulators, since ARMIS reports will have the costs and revenue in the appropriate jurisdiction. This method ensures costs are recovered at a rate the Commission deemed appropriate.

III. CONCLUSION

Demonstrated above, U S WEST's LNP rates in Transmittal No. 975 are just and reasonable and comply with the Bureau's LNP Cost Classification Order. These rates were derived using the Bureau's restrictive two-part LNP cost recovery test. The Commission should accordingly terminate its investigation and allow Transmittal No. 975 to remain in effect as filed.

Respectfully submitted,

U S WEST COMMUNICATIONS, INC.

By: James T. Hannon

James T. Hannon
Suite 700
1020 19th Street, N.W.
Washington, DC 20036
(303) 672-2860

Its Attorney

Of Counsel,
Dan L. Poole

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APPENDIX A

This appendix provides a detailed walk-through of the Charts filed in transmittal number 975 and how they reconcile to the associated workpapers provided in the same filing, or clarifying workpapers submitted with this Direct Case.

CHART 1:

The costs detailed in this chart are shown in two ways. At the top of the Chart, these casts are U S WEST's total cost to provide Local Number Portability and the portion of those costs interpreted as recoverable per both the December and May Orders. The more detailed section of the Chart details the total costs interpreted as recoverable per the Bureau's December Order, for both costs associated with Query Services and the End-User Surcharge.

<u>**Network Costs**</u>: Workpaper #5 does not separate network related expenditures between Expense and Capital. Therefore, for the purposes of this discussion, focus will be placed on the aggregate costs (expense and capital).

- Reconciliation between Chart 1 Network Costs and WP#5 costs eligible for recovery (subtotals shown on page 4 of 7 for Type 2 Recoverable costs per the December Order):

	pre 2000	2001	2002	2003	2004
Chart 1 CAP	$100,007,343	$61,085,199	$19,358,744	$9,389,721	-
Chart 1 EXP	$30,879,338	$15,219,640	$11,072,572	$10,448,968	$10,734,199
Chart 1 total	$130,886,681	$76,304,839	$30,431,317	$19,838,689	$10,734,199
WP#5 Recoverable costs	$130,886,681	$76,304,839	$30,431,317	$19,838,689	$10,734,199

[these numbers are shown on page 4 of 7 in the Workpaper on the sub-total line]

- For Cell Reference F8 on Chart 1 (Recoverable per the December Order), this will tie to the numbers outlined in the chart above, and also to page 4 of 7 on Workpaper #5 which shows a subtotal for Type 2 Recoverable Costs per the December Order.
- For the detailed year over year costs shown in rows 25 and 32 of Chart 1, these can be tied to the same subtotals noted above in Workpaper #5, shown on page 4 of 7 in that Workpaper.

<u>**OSS Costs:**</u>

- Cell Reference E26 on Chart 1 (and other columns in row 26) for OSS Capital ties to Workpaper # 4, page 7 of 11 where it outlines the Total costs for Capital that are recoverable under the December Order.
- Cell Reference E33 (and other columns in row 33) for OSS Expense ties to Workpaper #4, page 6 of 11 where it outlines Total costs for Expense that are recoverable under the December Order

- Cell Reference F9 will tie tot he totals for Expense-Recoverable (page 6 of 11) in Workpaper #4 and Capital-Recoverable (page 7 of 11) in Workpaper #4.

Service Delivery Costs:

- The Service Delivery Costs outlined in Chart 1 tie to page 1 of 4 in Workpaper #6, which detailed the required capital and expense for service delivery as it related to Local Number Portability.
- Rows 27 and 34 in Chart 1, as stated above, tie to the costs shown on page 1 of 4 in Workpaper #6.

Other Costs:

- No Workpaper was originally submitted to itemize these costs. However, these costs can be tied directly to the supplemental Workpaper filed as part of this direct case.

Cost of Money Impact:

- Row 40 on Chart 1 can be directly linked to Workpaper 11. These costs encompass the time value of money on the acceleration of switch replacement for only those portions of the switch attributable to LNP. They also, (as described in the original transmittal) include an 11.25% time value of money factor applied to costs incurred prior to 1999

CHART 1 - TOTAL COSTS

TOTAL COST ANALYSIS

	Associated WP	Total Cost to Provide	Recoverable per Dec. Order	Recoverable per May Order	Difference in Recoverable Costs
Network Costs	#5	$ 492,967,501	$ 268,195,725	$ 302,367,437	$ 34,171,712
OSS Costs	#4	$ 149,848,374	$ 110,116,394	$ 137,557,029	$ 27,440,635
Service Delivery Costs	#6	$ 80,840,243	$ 75,024,610	$ 75,024,610	$ -
Other Costs 1		$ 7,359,609	$ 7,359,609	$ 7,359,609	$ -
Cost of Money Costs	#11	$ 57,344,937	$ 12,862,836	$ 57,344,937	$ 44,482,102
Total:		$ 788,360,664	$ 473,559,173	$ 579,653,621	$ 106,094,449
% of Deployment Costs			60%	74%	
		$ 731,015,726			

DETAILED COSTS FOR RECOVERY - per the December Order

	Associated WP	Pre 2000	2000	2001	2002	2003/4	TOTAL
CAPITAL	Associated WP						
Network Costs	#5	$ 100,007,343	$ 61,085,199	$ 19,358,744	$ 9,389,721	$ -	$ 189,841,008
OSS Costs	#4	$ 7,516,562	$ -	$ -	$ -	$ -	$ 7,516,562
Service Delivery Costs	#6	$ 47,500	$ -	$ -	$ -	$ -	$ 47,500
Other Costs		$ -	$ -	$ -	$ -	$ -	$ -
Total Capital		$ 107,571,405	$ 61,085,199	$ 19,358,744	$ 9,389,721	$ -	$ 197,405,070
EXPENSE	Associated WP						
Network Costs	#5	$ 30,879,338	$ 15,219,640	$ 11,072,572	$ 10,448,968	$ 10,734,199	$ 78,354,717
OSS Costs	#4	$ 46,640,263	$ 16,555,111	$ 12,932,608	$ 12,388,947	$ 14,082,903	$ 102,599,832
Service Delivery Costs	#6	$ 15,234,730	$ 15,250,637	$ 12,940,934	$ 15,018,669	$ 16,532,139	$ 74,977,110
Other Costs		$ 994,389	$ 1,340,280	$ 1,588,578	$ 1,649,071	$ 1,787,291	$ 7,359,609
Total Expense		$ 93,748,721	$ 48,365,668	$ 38,534,693	$ 39,505,655	$ 43,136,531	$ 263,291,267
TOTAL DIRECT COSTS		$ 201,320,126	$ 109,450,867	$ 57,893,438	$ 48,895,376	$ 43,136,531	$ 460,696,337
COST OF MONEY IMPACT		$ 12,862,836					$ 12,862,836
TOTAL COSTS FOR RECOVERY		$ 214,182,961	$ 109,450,867	$ 57,893,438	$ 48,895,376	$ 43,136,531	$ 473,559,173

DEMAND UNITS	Pre 2000	2000	2001	2002	2003/4	TOTAL
ACCESS LINE-MONTHS	123,008,630	184,333,659	218,482,990	226,802,791	245,812,687	998,440,757
QUERIES						
Database Queries	309,696,353	750,898,588	1,264,429,059	1,912,884,565	2,198,778,353	6,436,686,918
Default Queries-End Office	376,106,824	165,697,412	106,519,765	39,451,765	41,424,353	729,200,119
Default Queries-Tandem	1,254,566,118	570,735,529	340,600,235	131,505,882	129,533,294	2,426,941,058
LINKS	828					
Total Switches	1565					

1 Other Costs include Customer Notification and ongoing expense to maintain end-user billing capabilities

Chart 2A

The costs detailed in this chart are those costs which are attributable only to the end-user surcharge. They incorporate the costs outlined in the separate workpapers for only the surcharge calculations.

Network Costs:

- The Network Costs from Chart 2A (rows 10 and 18) will reconcile to the subtotal shown on page 4 of 7 in Workpaper #5 which shows the sub-total of recoverable costs attributable to the end-user surcharge.

OSS Costs:

- The OSS Capital (row 11 on chart 2A) ties to page 7 of 11 on Workpaper #4, which totals the amounts of Recoverable Capital per the December Order.
- The OSS Expense (row 19 on Chart 2A) ties to page 6 of 11 on Workpaper #4 which totals the amounts of Recoverable Expense per the December Order, subtracting the amount of $1,064,912 detailed for Query Billing that is listed in the total for 1999. This results in an amount of Recoverable Expense in the amount of $21,728,440 (for 1999) which is the same amount as is in Cell F19 on Chart 2A

Service Delivery Costs:

- Rows 12 and 20 on Chart 2A tie to page 1 of Workpaper #6 which outlines Recoverable Costs (both Capital and Expense) related to Service Delivery

Other Costs:

- No Workpaper was originally submitted to itemize these costs. However, these costs can be tied directly to the supplemental Workpaper filed as part of this direct case. These costs include expenses associated with Customer Notification and the costs to support the ongoing billing for end-user charges.

Cost of Money Impact:

- Row 40 on Chart 1 can be directly linked to Workpaper 11. They encompass the time value of money on the acceleration of switch replacement for only those portions of the switch attributable to LNP. They also, (as described in the original transmittal) include an 11.25% time value of money factor applied to costs incurred prior to 1999

CHART 2A

COSTS ATTRIBUTABLE TO END USER SURCHARGE - per December Order

	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
CAPITAL										
Network Costs	$ -	$ 29,383,676	$ 21,855,589	$ 44,225,652	$ 59,999,903	$ 19,024,910	$ 9,382,197	$ -	$ -	$ 183,871,928
OSS Costs	$ -	$ 6,146,562	$ 470,000	$ 900,000	$ -	$ -	$ -	$ -	$ -	$ 7,516,562
Service Delivery Costs	$ -	$ -	$ -	$ 47,500	$ -	$ -	$ -	$ -	$ -	$ 47,500
Other Costs 1	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Capital										$ 191,435,990
EXPENSE	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
Network Costs	$ -	$ 11,243,319	$ 8,397,095	$ 10,009,649	$ 14,661,950	$ 10,685,654	$ 10,068,179	$ 9,532,898	$ 788,779	$ 75,387,523
OSS Costs	$ 567,200	$ 9,996,976	$ 13,282,735	$ 21,728,440	$ 16,555,111	$ 12,932,608	$ 12,388,947	$ 12,955,870	$ 1,127,032	$ 101,534,920
Service Delivery Costs	$ -	$ -	$ 1,701,206	$ 13,533,524	$ 15,250,637	$ 12,940,934	$ 15,018,669	$ 15,253,622	$ 1,278,516	$ 74,977,110
Other Costs 1	$ -	$ -	$ -	$ 994,389	$ 1,340,280	$ 1,588,578	$ 1,649,071	$ 1,787,291	$ -	$ 7,359,609
Total Expense										$ 259,259,161
COST OF MONEY IMPACT			$ 230,770	$ 12,632,066						$ 12,862,836
TOTAL COSTS FOR END USER SURCHARGE:										**$ 463,557,987**

1 Other Costs include Customer Notification and ongoing expense to maintain end-user billing capabilities

Chart 2B

This chart outlines the methodology used to calculate the appropriate end-user surcharge amount. As outlined in the original chart, all values on this page are not pulled from the Workpapers, but directly from Charts 1 or 2A. In an effort to clarify these values, the following in offered:

- Line 1 is the summary of Recoverable Capital taken directly from Chart 2A
- Line 2 takes those costs and amortizes them based on instructions in the December Order
- Line 3 takes line 1 and amortizes those costs to the year 2004
- Line 4 is the summary of Recoverable Expense taken directly from Chart 2A
- Line 5 is the return calculation utilization 11.25% return on the costs outline in line 2
- Line 6 is the interest payment, calculated as line 5 *.3458
- Line 7 is the Taxable Return Component which is Line 5 less Line 6
- Line 8 calculates the Federal Income Tax as Line 7 * .35/.65
- Line 9 calculated State and Local Taxes as (Line 7 + Line 8) * .058/.942
- Line 10 is the Cost of Money Impact taken directly from Chart 2A
- Line 11 is the sum of Lines 3 through 10 subtracting Line 5 to result in the Preliminary Revenue Requirement
- Line 12 assumes Uncollectibles of 1.4% which is consistent with U S WEST historical Uncollectibles values on end-user bills.
- Line 13 is the Final Revenue Requirement which adds Lines 11 and 12
- Line 14 shows the demand units taken from row 47 on Chart 1
- Line 15 is the proposed rate calculation taken Line 13/Line 14

END USER REVENUE REQUIREMENT

		Source	pre-2000	2000	2001	2002	2003&2004	Total
Line 1	Investment	Chart 2a	103,028,980	59,999,903	19,024,910	9,382,197	-	191,435,990
Line 2	Total Av. Net Book Cost	Annual average of Line 1, amortized to year 2004	92,726,082	124,620,201	104,867,887	69,957,760	23,319,888	
Line 3	Depreciation/Amortization	Line 1 amortized to 2004	20,605,796	35,605,772	41,941,067	46,632,165	46,632,165	
Line 4	Total Expense	Chart 2a	91,454,533	47,807,978	38,147,775	39,124,866	42,724,010	259,259,161
Line 5	Return @.1125	Line 2 * .1125	10,431,684	14,019,773	11,797,637	7,870,248	2,623,487	
Line 6	Interest Payment	Line 5 * .3458	3,607,276	4,848,037	4,079,623	2,721,532	907,202	
Line 7	Taxable Return Component	Line 5 - Line 6	6,824,408	9,171,735	7,718,014	5,148,716	1,716,285	
Line 8	Federal Income Tax	Line 7 * .35/.65	3,674,681	4,938,627	4,155,854	2,772,386	924,154	
Line 9	State & Local Tax	(Line 7 + Line 8) * .058/.942	646,441	868,791	731,087	487,711	162,575	
Line 10	Cost of Money Impact	Chart 2a	12,862,836					
Line 11	Prelim Revenue Requirement	Sum of Lines 3 to 10 less Line 5	139,675,970	103,240,940	96,773,420	96,887,376	93,066,391	529,644,097
Line 12	Uncollectibles	Line 11 * .014	1,955,464	1,445,373	1,354,828	1,356,423	1,302,929	7,415,017
Line 13	Final Revenue Requirement	Line 11 + Line 12	141,631,434	104,686,313	98,128,248	98,243,799	94,369,321	537,059,114
Line 14	Demand Units	Chart 1	123,008,630	184,333,659	218,482,990	226,802,791	245,812,687	998,440,757
Line 15	Proposed Rate	Line 13/Line 14						**0.5379**

Worksheet 1